VEEC Compendium

K2.2

1

EB-2018-0242/0270

HYDRO ONE NETWORKS

ORILLIA POWER DISTRIBUTION CORPORATION
MAADs EB-2018-0270

PETERBOROUGH DISTRIBUTION INC.
MAADs EB-2018-0242

VECC COMPENDIUM

December 3, 2019

(2)

TAB 1

3

VT INCEPIT FIDELIS SIC PERMANET

Ontario

ONTARIO ENERGY BOARD

FILE NO.:	**EB-2018-0242**	**Hydro One Networks Inc. / Peterborough Utilities Inc.**
	EB-2018-0270	**Hydro One Networks Inc. / Orillia Power Distribution Corporation**

VOLUME: **Technical Conference**

DATE: **October 4, 2019**

Peterborough ratepayers, yes.

MS. GIRVAN: When do you intend to clear those accounts?

MR. FLANNERY: So we would take a look at those. So generally, we would get to where we thought it would be a material balance. So if it wasn't written anywhere, in terms of the SPA or the asset purchase agreement, the APA. If it wasn't outlined there, we would take a look at it and when it got to sort of a material balance in terms of that utility, we would then look to dispose of those amounts.

MS. GIRVAN: Okay. So you don't know at this stage?

MR. FLANNERY: We haven't made a determination yet.

MS. GIRVAN: Okay. Thank you.

MR. FLANNERY: I guess, just in following on from that, as you can see from Peterborough's attachment 1, a lot of these accounts are commodity-based. So if you have a look at the second -- or actually the first item on attachment 1, the wholesale market service charge, it seems to have -- some of these items take some swings in debits and credits, depending on what those global adjustments are from period to period.

So a material balance that is negative might go back, as it is done in the 2017 numbers, from a debit to a credit.

So from year to year, there is definitely some movements there.

MS. GIRVAN: Okay. I guess my concern, again, this is sort of like the ICM discussion we were having earlier

TAB 2

6

Ontario

ONTARIO ENERGY BOARD

FILE NO.:	**EB-2018-0242**	**Hydro One Networks Inc. / Peterborough Utilities Inc.**
	EB-2018-0270	**Hydro One Networks Inc. / Orillia Power Distribution Corporation**

VOLUME: **Technical Conference**

DATE: **October 3, 2019**

page 11 is the net movement? Ah.
MR. HURLEY: Yes.
MR. SHEPHERD: Okay. So you're getting net movement of 694 or something each year?
MR. HURLEY: In that range.
MR. SHEPHERD: Give or take. Which means that you already now owe the customers 2.6 million, and by the time this case is over it will be another -- it will be like 3.3 or more? Is that right?
MR. HURLEY: That's correct.
MR. SHEPHERD: Okay. You haven't applied to have that cleared, have you?
MR. HURLEY: No. We did one such application a few years ago, and we did reduce the liability by about 1.3 million. However, we haven't done one since.
MR. SHEPHERD: Are you planning to do another one?
MR. HURLEY: Not at this time, no. We are awaiting the decision --
MR. SHEPHERD: Okay. So I will ask Hydro One. If the sale is approved are you planning to clear this? And if so, when?
MS. RICHARDSON: My understanding from a conversation I had yesterday -- and I did mean to check that last night, so I'm sorry -- is that the addendum to the share purchase agreement requires us to clear this account at the time that the purchase is completed. So it will be refunded to the ratepayers of Orillia at that point in time, once the OEB approves it, of course.

22

TAB 7

SEC INTERROGATORY # 23

Reference:
[A/4/1, p. 2]

Interrogatory:
Please confirm that, taking into account depreciation each year, PDI currently expects to spend more than $115 million on capital (plus customer contributions) over the 17 year period 2013 to 2030, a compound annual growth rate of 3.5% per year. Please provide the Distribution System Plan or similar document of PDI supporting that level of capital spending. If there is no DSP or multi-year plan, please provide "PDI's 2019 Rate Base forecast" referred to in Attachment 20, with all supporting documents and all assumptions explained.

Response:
PDI's capital spend (before contributed capital) over the 17 year period (from 2013 to 2029) is forecast to be $126 million which is greater than the $115 million suggested in the above statement. Taking the gross expenditures of $5.2M in 2013 and the gross expenditures of $9.2M in 2029 represents a compound growth rate of 3.6%, not 3.5%.

Please see the Attachment to this Exhibit for further detail.

For PDI's forecast referred to in Attachment 20, please refer to Exhibit I, Tab 1, Schedule 17 Attachment 3.

PETERBOROUGH DISTRIBUTION INC.
STATEMENT OF CAPITAL EXPENDITURES

Note: the total for years 2013 to 2017 agree to the audited financial statements, 2018 numbers are interim numbers and prior to audit, 2020 to 2030 are projections.

($'s in thousands)

	Actuals						Budget	Forecast										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Land				6														
Buildings		134	138	94		2	60	62	63	62	62	62	62	62	62	62	62	62
Distribution Stations		56	1,356	217	15	55	877	2,142	2,143	2,344	1,545	1,546	1,648	1,649	1,748	1,745	1,842	1,644
Poles and Fixtures	996	606	1,230	1,847	1,384	681	1,121	883	893	1,138	1,135	1,258	1,084	1,081	1,294	1,286	1,422	1,458
Overhead Conductors	900	1,264	1,439	593	933	1,151	1,127	857	889	1,140	1,002	1,259	989	946	1,230	1,217	1,361	1,395
Underground Conduit	777	982	958	330	704	575	614	664	637	476	545	625	741	805	836	831	917	940
Underground Conductors	513	491	623	292	626	380	700	899	919	608	849	713	929	980	1,010	1,020	1,100	1,140
Transformers	1,082	2,033	1,041	836	1,394	1,181	1,529	1,285	1,273	1,256	1,759	1,643	1,643	1,694	1,824	1,846	1,957	1,995
Services	764	667	451	1,204	453	329	252	308	276	176	113	167	246	261	269	271	291	298
Meters	177	162	286	338	310	453	400	200	200	100	100	103	105	400	410	150	154	158
Measurement and Test Equipment			82	9	16													
System Supervisory Equipment			101		12	317												
Computer Equipment								250	671	45	50	50	50	100	50	500	50	50
Transportation Equipment							352	400	102	34	501	455	680	505	62	32	0	245
Gross Capital Expenditures	**5,209**	**6,395**	**7,704**	**5,766**	**5,847**	**5,124**	**7,033**	**7,948**	**8,066**	**7,378**	**7,660**	**7,881**	**8,176**	**8,481**	**8,794**	**8,960**	**9,156**	**9,384**
Contributed Capital	1,416	1,313	2,203	1,838	1,745	648	1,433	1,705	1,676	1,338	1,465	1,529	1,661	1,800	1,942	1,933	1,950	1,997
Net Capital Expenditures	**3,793**	**5,082**	**5,501**	**3,928**	**4,102**	**4,476**	**5,600**	**6,243**	**6,390**	**6,040**	**6,195**	**6,352**	**6,515**	**6,681**	**6,852**	**7,027**	**7,206**	**7,387**

25

TAB 8

26

OEB STAFF INTERROGATORY # 15

Reference:
Exhibit A-2-1, page 2 Table 1, pages 22-23
Exhibit A-3-1, page 8 Table 2

Interrogatory:
Preamble:
Hydro One is requesting approval to utilize US GAAP for accounting purposes in relation to the ongoing business of the former PDI. PDI currently uses IFRS for financial accounting purposes. The current distribution rates for the PDI service territory are underpinned by Modified IFRS (MIFRS) for regulatory accounting purposes and will continue to be during the deferred rebasing period.

a) Has Hydro One or 1937680 undertaken any studies or reviews of the types of transactions that will be impacted by the accounting standard transition from IFRS to US GAAP in the former PDI?

b) Please quantify the estimated impact on PDI's revenue requirement during the deferred rebasing period as a result of PDI changing its accounting standards. Specifically, please separate the components of revenue requirement that are expected to be impacted and show how these calculations are derived.

c) Please explain Hydro One's intentions with respect to how it plans to account for these differences with respect to distribution rates.

d) If Hydro One's intention in part d) above is to request to have an Accounting Order established to track the revenue requirement differences between MIFRS and US GAAP in the former PDI service territory as part of this proceeding, please prepare a Draft Accounting Order as an appendix for approval.

e) Please explain and quantify what impact, if any, the change from IFRS to US GAAP has on the amounts forecasted in Table 1: Projected Cost Savings - $M of Exhibit A-2-1.

f) Please prepare the amounts in Table 1: Projected Cost Savings - $M of Exhibit A-2-1 on the basis that PDI remains on IFRS (and continues with its existing accounting policies with respect to capitalization, depreciation, etc.) for financial reporting and MIFRS for ratemaking purposes.

g) Please explain and quantify what impact, if any, the change from IFRS to US GAAP has on the amounts forecasted in the proposed ESM calculation under Table 2: Earnings Sharing Mechanism of Exhibit A-3-1 (particularly, on OM&A, depreciation, financing costs, and taxes).

h) Please prepare the amounts in Table 2: Earnings Sharing Mechanism of Exhibit A-3-1 on the basis that PDI remains on IFRS (and continues with its existing accounting policies with respect to capitalization, depreciation, etc.) for financial reporting and MIFRS for ratemaking purposes.

Response:

a) Hydro One assessed areas of USGAAP and IFRS differences, and determined that the only area that could impact revenue requirement is the potential difference in capitalization policies of the two companies, particularly with respect to capitalization of certain overhead costs. In the Hydro One forecast capital costs noted in Exhibit A, Tab 2, Schedule 1, Table 1, there are no overhead costs as based on Hydro One's assessment they were deemed to be non-incremental. PDI's capitalization policy allows allocation of overheads to fixed assets. As such the difference between the Hydro One forecast capital costs and the Status Quo Peterborough capital costs in Exhibit A, Tab 2, Schedule 1, Table 1 is that the Peterborough costs include capitalization of overheads whereas in the Hydro One forecast no overhead costs are included.

b) Please see part a).

c) Please see part a).

d) Based on the response to part a) above Hydro One believes this is not applicable.

e) Please see part a).

f) Please see part a).

g) There is no impact.

h) See part g) above.

TAB 15

52

UNDERTAKING - JT1.5

Reference:

Undertaking:

To provide a 1575 or 1576 calculation; if refused, to provide a reason.

Response:

Hydro One has completed the calculations of the Year 10 rate base value for both OPDC and PDI, if each utility kept their own depreciation rate and the capital additions were as provided in Table 1 of Exhibit A, Tab 2, Schedule 1, "Hydro One Forecast". For capital additions made in Years 1- 10, Hydro One maintained its own depreciation rate as these new assets will be purchased and/or constructed by Hydro One and then operated and maintained under Hydro One's ownership throughout the life of the asset.

The calculation, in the form of the 1575 calculation is provided in Attachment 1 for OPDC and Attachment 2 for PDI. The results are summarized below:

$000	2029			
	OPDC		PDI	
	HONI's Depreciation Rates	OPDC's Depreciation Rates	HONI's Depreciation Rates	PDI's Depreciation Rates
Net PPE	48,369	46,367	93,409	97,146
Avg. PPE	47,575	45,673	92,458	96,013
Working Capital	3,640	3,640	8,727	8,727
Rate Base	51,215	49,313	101,185	104,740
Difference	$1,902 A		($3,555) B	

Net A+B = ($1,653)

The above analysis shows that OPDC's rate base would have been lower in 2029 (year 10 of the deferred rebasing period) by $1.9M if OPDC's depreciation rates were used on the purchased assets; whereas PDI's rate base would have been $3.6M higher in 2029 if PDI's depreciation rates were used.

Hydro One reaffirms that the change in depreciation rates is not a function of a change in accounting policies (e.g. it is not related to the change from MIFRS to USGAAP). The depreciation rates used for forecasting purposes (Years 1 to 11 of the analysis) are blended averages and are impacted by each utilities' individual region-specific asset mix and for each utility are reflective of the maintenance and operating policies of the utility owning the assets (i.e. on a stand-alone basis each LDC will have slightly different asset weightings depending on the territory-specific needs of that LDC). Hydro One's depreciation rates are determined through an independent study by Dr. White at Fosters Associates, and underpin the depreciation rates by USofA as approved by the OEB. Once Hydro One integrates the assets of both OPDC and PDI into its distribution system, Hydro One's assessment is that the overall remaining useful life of the acquired LDC's assets is approximately equal to the remaining useful life of Hydro One's assets and therefore the use of Hydro One's depreciation rates will be reflective of the assets useful lives under its stewardship.